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Message Text

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SUBJECT: CIVAIR - US-JAPAN NEGOTIATIONS, JULY 11-15

1. SUMMARY: BY MEANS OF AN AGREED MINUTE SIGNED JULY 12, IMMEDIATE ISSUES (EXCEPT FOR CHARTER FLIGHTS) WERE FINALLY RESOLVED IN SUCH A MANNER AS TO ALLOW THE LONG-DELAYED REVISION TALKS TO BEGIN. DISCUSSIONS FOR REMAINDER OF WEEK WERE PRIMARILY PRESENTATIONS BY BOTH SIDES OF POSITIONS COVERING ROUTES AND AIRLINE DESIGNATION, FIFTH FREEDOM TRAFFIC, CAPACITY AND CHARTERS. LITTLE NEW GROUND WAS BROKEN. THE NEXT ROUND OF TALKS ARE SCHEDULED FOR OCTOBER 3 FOR TWO WEEKS, IN TOKYO. END SUMMARY.

2. AFTER INTRODUCTORY REMARKS BY ASST. SECY. KATZ AND JAPANESE AMBASSADOR, OPENING DAY DISCUSSIONS TURNED TO
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IMMEDIATE ISSUES AND THE REMAINING THREE AREAS OF DIFFERENCES IN PROPOSED AGREED MINUTE, I.E., 7:00 PM CURFEW AT OSAKA, OVERNIGHTING IN HANEDA OF FIFTH FREEDOM TRAFFIC FLIGHTS AND AIRPORT SLOTS FOR US SUPPLEMENTAL AIRLINES (SPECIFICALLY FOR WORLD AIRWAYS' FALL PROGRAM).

3. THE FIRST TWO ISSUES WERE RESOLVED FAIRLY QUICKLY. US ACCEPTED THE 7:00 PM RESTRICTION AT OSAKA BUT ON UNDERSTANDING JAPANESE WOULD CONTINUE TO SHOW NORMAL FLEXIBILITY

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IN ACCEPTING DELAYED FLIGHTS. JAPANESE APPARENTLY WERE ENCOURAGED BY REDUCED NUMBER OF PAN AM FLIGHTS WHICH MAY HAVE CURFEW PROBLEM. OVERNIGHTING PROBLEM WAS HANDLED BY INCLUDING IT AS FIFTH FREEDOM REVISION ISSUE. TERM "SIXTH FREEDOM" WAS DROPPED BUT IT WAS UNDERSTOOD THIS CONCEPT WAS COVERED BY FIFTH FREEDOM.

4. ONLY SUPPLEMENTAL SLOT PROBLEM WAS NOT RESOLVED. JAPANESE UNDERSTAND PARA NO. 4, AGREED MINUTE, TO MEAN NO MORE THAN TWO SLOTS PER DAY PER AIRLINE AND WORLD AIRWAYS' FALL CHARTER PROGRAM REQUIRES FOUR SLOTS ON SEVERAL DAYS AND UP TO FIVE SLOTS ON ONE DAY. JAPANESE REFUSED TO GIVE WAY ON THIS POINT, EXPLAINING US REQUEST WAS TECHNICALLY IMPOSSIBLE. US FINALLY ACCEPTED THAT GOJ WOULD USE UTMOST EFFORTS TO ALLOCATE SLOTS. WORLD AIRWAYS WILL MEET WITH JAPANESE AUTHORITIES IN END OF JULY TO SEE WHAT SLOTS ARE AVAILABLE AND WHAT CAN BE WORKED OUT.

5. AFTER SIGNING OF MEMO OF CONSULTATION AND AGREED MINUTE, DELEGATIONS MOVED TO REVISION TALKS. MINISTER FUKADA, JAPANESE EMBASSY,AND MICHAEL STYLES, DIRECTOR, OA, READ OPENING STATEMENTS. FURTHER DISCUSSIONS WERE DIVIDED INTO GENERAL TOPICS: ROUTES AND DESIGNATIONS, FIFTH FREE-
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DOM, CAPACITY AND CHARTERS. JAPANESE POSITION, UNCHANGED FROM PREVIOUS MEETINGS, INCLUDED REQUESTS FOR EXTENSIVE ADDITIONAL POINTS IN US AND BEYOND TO LATIN AMERICA, WITH ROUTES DIVIDED INTO FOUR GROUPINGS AND WITH SINGLE DESIG-NATION OF AIRLINES ON EACH OF THESE ROUTES. US COUNTERED JAPANESE COMPLAINT REGARDING ABUSE OF FIFTH FREEDOM TRAFFIC CARRIAGE BY US AIRLINES (AND, SPECIFICALLY, AS RELATED TO OVERNIGHTING OF FLIGHTS) BY RAISING JAPANESE SIXTH FREEDOM TRAFFIC. ACCORDING TO US FIGURES, US AIRLINES' BENEFITS FROM FIFTH FREEDOM TRAFFIC ARE DOLS 45 MILLION (PASSENGER--DOLS 35 MILLION; CARGO--DOLS TEN MILLION) WHILE JAL'S BENEFITS FROM SIXTH FREEDOM TRAFFIC ARE DOLS 103 MILLION (PASSENGERS--DOLS 59 MILLION AND CARGO--DOLS 44 MILLION).
IN DISCUSSION OF CAPACITY ARRANGEMENTS, JAPANESE MAINTAINED CONTROL OF CAPACITY WOULD NOT ELIMINATE COMPETITION AND PROMISED GOJ WOULD ONLY VETO "UNJUSTIFIED" CAPACITY INCREASES. USDEL POINTED OUT WHILE IT WOULD CONSIDER REASONABLE ARRANGEMENT TO AVOID EXCESSIVE CAPACITY, IT COULD NOT CONSIDER MECHANISM SIMPLY TO CONTROL CAPACITY.
US LED DISCUSSION ON CHARTERS, PRESENTING AS GUIDE TO DIS-CUSSION PAPER LISTING BASIC POINTS TO BE COVERED BY CHARTER AGREEMENT. IN RESPONSE TO JAPANESE EXPRESSED LACK OF UNDER-STANDING REGARDING RELATION OF SCHEDULED AND CHARTER SER-VICES AND CONTROL OF TOTAL AIR CAPACITY, USDEL REVIEWED DIFFERENCE BETWEEN THE NON-DISCRETIONARY (OR BUSINESS) TRAVELER AND DISCRETIONARY (OR TOURIST) TRAVELER AND

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POINTED OUT CHARTER SERVICES BASED ON FULL PLANE LOADS AND, THEREFORE, COULD NOT BE CONSIDERED IN ARRANGEMENTS TO CONTROL EXCESS CAPACITY.

6. ON FRIDAY USDEL CHAIRMAN PRESENTED FOLLOWING SUMMARY OF US POSITIONS:

QUOTE. PERHAPS IT WOULD BE MOST USEFUL IF I WERE TO SUMMARIZE THE MAIN ISSUES AND, OF EQUAL IMPORTANCE, AS WE
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WANT TO APPROACH THESE NEGOTIATIONS IN A CONSTRUCTIVE MANNER, TO SUGGEST POSSIBLE COURSES OF ACTION WHICH WE THINK ARE APPROPRIATE. REGARDING ROUTES, THERE ARE TWO MAIN POINTS: FIRST IS THE DIFFICULTY WE HAVE WITH YOUR DIVISION OF ROUTES WHICH WE THINK IS ARTIFICIAL; SECOND, WE HAVE DIFFICULTY WITH THE PRINCIPLE OF MIRROR RECIPROCITY. IN OUR VIEW, ROUTES SHOULD BE BASED ON TRAFFIC VOLUME AND FLOW AND OTHER ECONOMIC CONSIDERATIONS. IT WOULD BE USEFUL IN THE NEXT MEETING TO APPROACH THE SUBJECT OF ROUTES IN THAT FASHION AND I SUGGEST THE JAPANESE SIDE LOOK AT ITS ROUTE PROPOSAL IN LIGHT OF ECONOMIC CONSIDERATIONS AND REVISE IT IN ACCORDANCE WITH TRAFFIC FLOW AND VOLUME. WE WILL ATTEMPT TO DO OUR OWN ANALYSIS OF THE JAPANESE ROUTE REQUEST BUT IT WILL BE DIFFICULT TO DO THAT EFFECTIVELY BECAUSE OF THE WAY THE JAPANESE ROUTE REQUEST IS CONSTRUCTED. REGARDING THE JAPANESE CONCERN OVER FIFTH FREEDOM TRAFFIC AND OVERNIGHTING, WE WILL CONSIDER THIS FURTHER BUT WE THINK THIS PROBLEM IS A REVISION ISSUE AND CAN ONLY BE SOLVED IN THAT CONTEXT. REGARDING AIRLINE DESIGNATION, MULTIPLE DESIGNATION MUST BE MAINTAINED.

IN REGARD TO CAPACITY, WE HAVE VERY STRONG OBJECTIONS TO THE MARKET SHARING FEATURES OF THE JAPANESE PROPOSAL. WE ARE PREPARED TO CONSIDER REASONABLE ARRANGEMENTS TO AVOID EXCESS CAPACITY. SPECIFICALLY WE WOULD CONSIDER AN ARRANGEMENT WITH THE FOLLOWING FEATURES: (1) AIRLINES OF BOTH SIDES WOULD FILE SCHEDULES BEFORE AN UPCOMING SEASON WITH ITS OWN GOVERNMENT OR BOTH GOVERNMENTS; (2) USG IS PREPARED TO CONSIDER FILING DATES OF MORE THAN THE CURRENT 45 DAYS; (3) THE GOVERNMENT OF THE AIRLINE CONCERNED WOULD REVIEW THE SCHEDULE TO SEE IF IT IS CONSISTENT WITH THE AGREEMENT AND FILE WITH THE OTHER GOVERNMENT ONLY THOSE
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SCHEDULES WHICH IT BELIEVES ARE JUSTIFIED; (4) SCHEDULES

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FILED IN THIS MANNER WOULD GO INTO EFFECT; (5) THERE WOULD BE A PROVISION FOR A REVIEW OF THE SCHEDULE AT THE END OF THE SEASON IN BILATERAL CONSULTATIONS AND SOME PROVISION FOR A CORRECTIVE MECHANISM IF AGREEMENT CANNOT BE REACHED. HOWEVER, THESE PROCEDURES CAN ONLY BE APPLICABLE TO COMBINATION SERVICE AND NOT ALL-CARGO SERVICE. CARGO

SERVICES PROMOTE TRADE BETWEEN THE COUNTRIES AND, BECAUSE OF THE DIFFERENCE BETWEEN CARGO AND PASSENGER SERVICES, EXCESS CAPACITY IN CARGO IS HIGHLY UNLIKELY.

REGARDING CHARTER SERVICES, THIS IS THE PRINCIPAL OBJECTIVE OF THE US IN REVISION DISCUSSIONS. WE APPRECIATE THIS IS A DIFFICULT AND COMPLICATED SUBJECT. THEREFORE, IN ORDER TO FACILITATE DISCUSSION, WE WILL SUBMIT A DRAFT OF A PROPOSED AGREEMENT BEFORE THE NEXT MEETING. THEREFORE YOU WILL HAVE AMPLE OPPORTUNITY TO STUDY IT. WE WOULD RECOMMEND IT TO BE ONE OF THE EARLY ITEMS ON THE

AGENDA OF THE NEXT MEETING IN ORDER TO ALLOW ADEQUATE TIME FOR DISCUSSION.

ALSO REGARDING CHARTERS, I ASK YOU TO RECALL THAT A TIMELY RESOLUTION OF WORLD AIRWAYS' PROGRAM WILL FACILITATE THE REVISION TALKS.

LASTLY, I WOULD LIKE TO FLAG SOME ITEMS FOR FUTURE CONSIDERATION--THE FIRST IS INEVITABLE, THE OTHER TWO, PERHAPS NOT. FIRST IS THE QUESTION OF SLOTS AND AIRPORT CONGESTION. THERE IS A DILEMMA BETWEEN PROPOSALS TO EXPAND AIR SERVICES AND OPERATIONAL RESTRICTIONS WHICH PREVENT THAT EXPANSION. SPECIFICALLY, THERE ARE TWO SITUATIONS WHICH REQUIRE DISCUSSION: (1) THE EXTENT NARITA WILL RELIEVE THE CONGESTION IN THE TOKYO AREA. WE HOPE YOU WILL TELL US BEFORE HAND WHAT OPERATIONAL RESTRIC-
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TIONS THERE WILL BE; AND (2) THE SITUATION AT OSAKA WHEN THAT AIRPORT OPENS TO WIDE-BODIED AIRCRAFT. THE US AIRLINE SERVICE AT OSAKA HAS NOT BEEN NORMAL BECAUSE OF THIS RESTRICTION BUT, WHEN IT OPENS TO WIDE-BODIED JETS, IT COULD BE THAT THE SLOTS NOW AVAILABLE WILL NOT ALLOW A NORMAL PATTERN OF OPERATIONS. AGAIN, WE ARE NOT TRYING TO CAUSE PROBLEMS BUT TO FORESEE PROBLEMS. THEREFORE, WITH RESPECT TO OSAKA, WE WISH TO BE ADVISED OF THE GUIDELINES YOU MAY WISH TO IMPOSE IN THE FUTURE SO WE COULD HAVE AN OPPORTUNITY TO DISCUSS THEM IF WE SEE THERE ARE DIFFICULTIES.

TWO OTHER ITEMS WE WISH TO FLAG ARE: (1) THE QUESTION OF GROUND HANDLING AT JAPANESE AIRPORTS, SPECIFICALLY, US

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AIRLINES DOING THEIR OWN GROUND HANDLING SERVICES.
(2) ANOTHER QUESTION WHICH HAS LAIN DORMANT FOR SOME TIME CONCERNS THE ABILITY OF US FREIGHT FORWARDERS TO DO BUSINESS IN JAPAN. THE BEST THING FOR US TO DO IS TO INFORM YOU IN ADVANCE IF WE WISH TO DISCUSS THIS ISSUE. UNQUOTE.

7. ALTHOUGH THE NEXT ROUND OF TALKS IS SPECIFICALLY NOTED IN THE MEMORANDUM OF CONSULTATIONS AS STARTING OCTOBER 3 FOR TWO WEEKS (IN TOKYO), BOTH SIDES AGREED THAT BECAUSE OF THE PROSPECT OF RAISING THE LEVEL OF DELEGATION CHAIRMEN, THIS COULD RESULT IN SOME SLIPPAGE DUE TO PROB-LEMS OF FITTING DATE INTO SCHEDULE OF NEW CHAIRMEN.

8. COMMENTS: AFTER IMMEDIATE ISSUES WERE FINALLY PLACED ASIDE (IF NOT COMPLETELY SETTLED), LITTLE PROGRESS WAS MADE TOWARD SETTLEMENT OF REVISION ISSUES. HOWEVER, THIS LACK OF MOVEMENT WAS EXPECTED. IT IS GENERAL BELIEF THAT OCTOBER WILL SEE MUCH MORE IN THE WAY OF BARGAINING.
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JDEL'S SEVERAL MENTIONS OF US-UK AGREEMENT GIVE EVIDENCE THAT THAT AGREEMENT HOLDS HIGH PLACE IN GOJ THINKING.

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